



How to Do Pension Reform

By ALLYSIA FINLEY

Perhaps there's hope for California yet. Illinois Democrats are spearheading pension reform, and get this—they're not merely tinkering around the edges.

Gov. Pat Quinn is proposing to raise the retirement age to 67 from 55; cap retirees' annual cost-of-living increases at the lesser of 3% or half of the consumer price index; and increase workers' pension contributions by three percentage points. But what makes these reforms bolder than most other states' is that they would apply to *current* employees in addition to future hires.

Of course, reform is also more urgent in Illinois than in other states. Its pension system is only about 50% funded—the worst in the country—and would run dry by the end of the decade without significant changes. Lawmakers have postponed reform for the past several years in hopes that the stock market would rally and save the day. However, investment shortfalls and chronic underfunding have caused their pension bill to quadruple since 2007. Retirement costs consumed all \$6.8 billion in new revenues from last year's corporate and income tax hikes.

One excuse Democrats gave for delaying reform was that the state constitution explicitly protects pension benefits for current employees. Mr. Quinn is sidestepping the legal issues by making the benefit changes "voluntary." However, workers who reject them would forfeit their retiree health coverage. Plus, any future raises they receive wouldn't be factored into their pensions. Thus, opting out of the new plan would actually result in an even lower pension for most employees.

Both Democratic and Republican legislative leaders have expressed support for the Governor's plan, which means that it's likely to make it into law by the budget deadline at end of the month. That would ratchet up the pressure on California to approve pension reforms, just as its blue state siblings New Jersey, New York and Rhode Island have done in the past year. California lawmakers like to boast that they're progressive trend-setters, but they aren't as bold as they bark.

<http://online.wsj.com/article/SB10001424052702304451104577390564134066968.html#articleTabs%3Darticle>